Foundations of MARKETING

Seventh Edition

Chapter 13

Marketing Channels and Supply-Chain Management

Pride | Ferrell

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Learning Objectives

13-1 Describe the foundations of supply-chain management.

13-2 Explain the role and significance of marketing channels and supply chains.

13-3 Identify the intensity of market coverage.

13-4 Describe strategic issues in marketing channels, including leadership, cooperation, and conflict.

13-5 Explain physical distribution as a part of supply-chain management.

13-6 Describe legal issues in channel management.

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Foundations of the Supply Chain

- **Distribution** – decisions and activities involved in making products available to customers when and where they want to purchase them
- **Supply chain** – activities associated with the flow and transformation of products from raw materials through to the end customer

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Operations and Logistics Management

- **Operations management** – total set of managerial activities used by an organization to transform resource inputs into goods, services, or both
- **Logistics management** – planning, implementing, and controlling the efficient and effective flow and storage of products and information from the point of origin to consumption in order to meet customers' need and wants

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Foundations of the Supply Chain

- **Supply management** – processes that enable the progress of value from raw material to final customer and back to redesign and final disposition
- **Supply-chain management** – a set of approaches used to integrate the functions of operations, logistics, supply, and marketing channel management so products are produced and distributed in the right
  - Quantities
  - Locations
  - Time

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Supply-chain Management

- **Supply-chain management** – a set of approaches used to integrate the functions of operations, logistics, supply, and marketing channel management so products are produced and distributed in the right
  - Quantities
  - Locations
  - Time
- Strong future growth for supply-chain management
  - Critical to fulfilling customer expectations
  - Requires coordination with all areas of the business

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Impact of Technology

Using data available through improved information technology

- Reduces costs, improves service, and provides increased value to the end customer
- Increases and changes of demand for innovative goods and services
- Ensures customers get the products when, where, and how they want them

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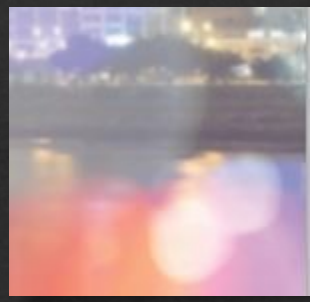
Discussion Point – Technology Facilitates Supply-Chain Management



Source:CTSI-Global

CTSI-Global provides services and technology to facilitate supply-chain management for business customers.

What does a logistics technician do?

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Role of Marketing Channels in Supply Chains

- **Marketing channel - g**roup of individuals and organizations that direct the flow of products from producers to customers within the supply chain
  - Primary role - make products available at the right time, at the right place, in the right quantities
  - Driving force - provide customer satisfaction
- Marketing intermediaries - link producers to other intermediaries or ultimate consumers through
  - Contractual arrangements
  - The purchase and resale of products
- Marketing intermediaries play key roles in customer relationship management through
  - Distribution activities
  - Maintaining databases and information systems

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Table 13.1 - Marketing Activities Performed by Intermediaries

Marketing Activities	Sample Activities
Marketing information	Analyze sales data and other information in databases and information systems. Perform or commission marketing research.
Marketing management	Establish strategic and tactical plans for developing customer relationships and organizational productivity.
Facilitating exchanges	Choose product assortments that match the needs of customers. Cooperate with channel members to develop partnerships.
Promotion	Set promotional objectives. Coordinate advertising, personal selling, sales promotion, publicity, and packaging.
Price	Establish pricing policies and terms of sales.
Physical distribution	Manage transportation, warehousing, materials handling, inventory control, and communication.

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The Significance of Marketing Channels

- Channel decisions determine a product's
  - Market presence
  - Accessibility
- Entail long-term commitments among a variety of firms; difficult to change/undo marketing channel decisions

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Marketing Channels Create Utility

- Time utility - making products available when the customer wants them
- Place utility - making products available in locations where customers wish to purchase them
- Possession utility - customer has access to the product to use or to store for future use
- Form utility - assembling, preparing, or otherwise refining the product to suit customer needs

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Figure 13.1 - Efficiency in Exchanges Provided by an Intermediary

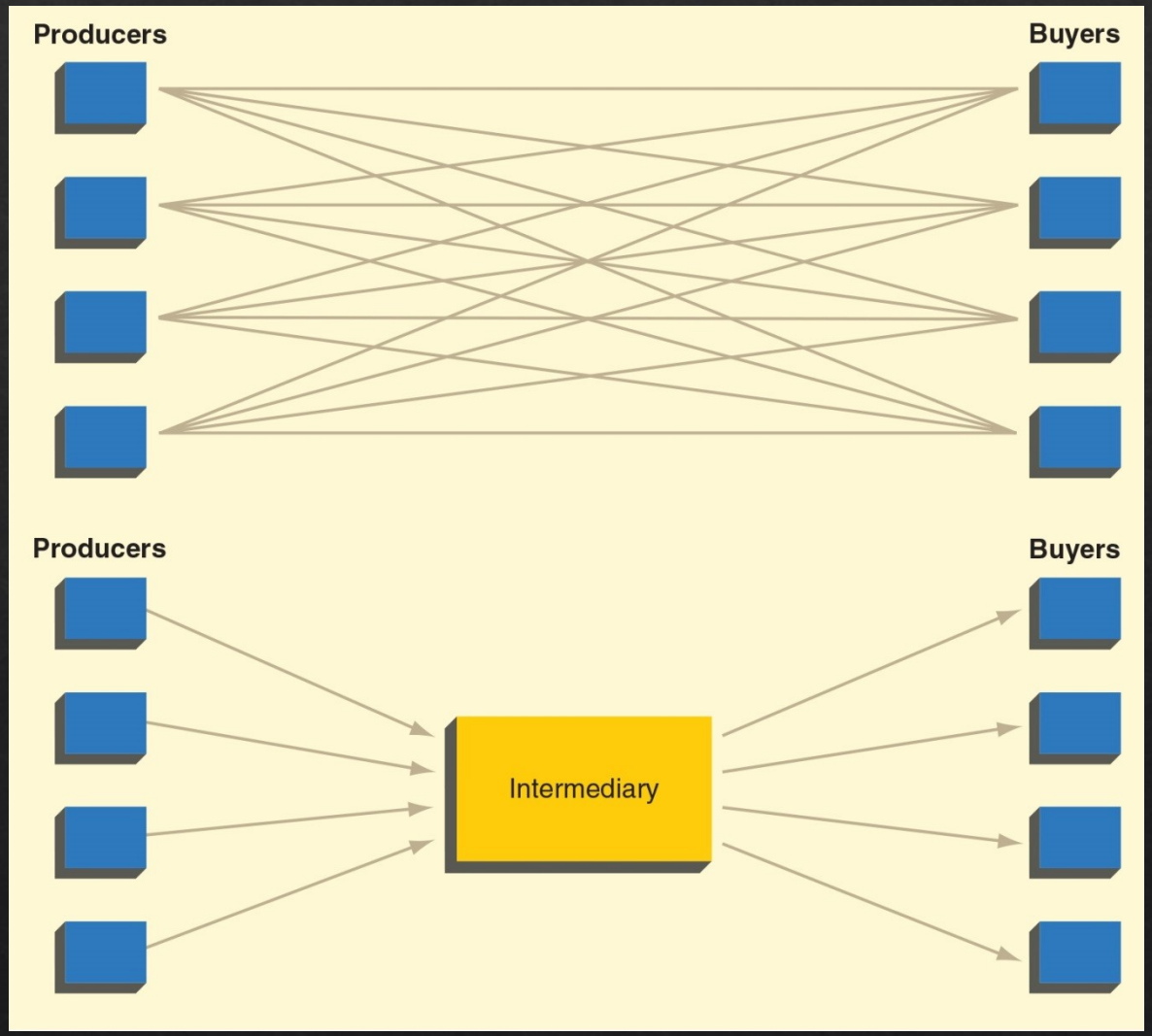

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Figure 13.2 - Typical Marketing Channels for Consumer Products

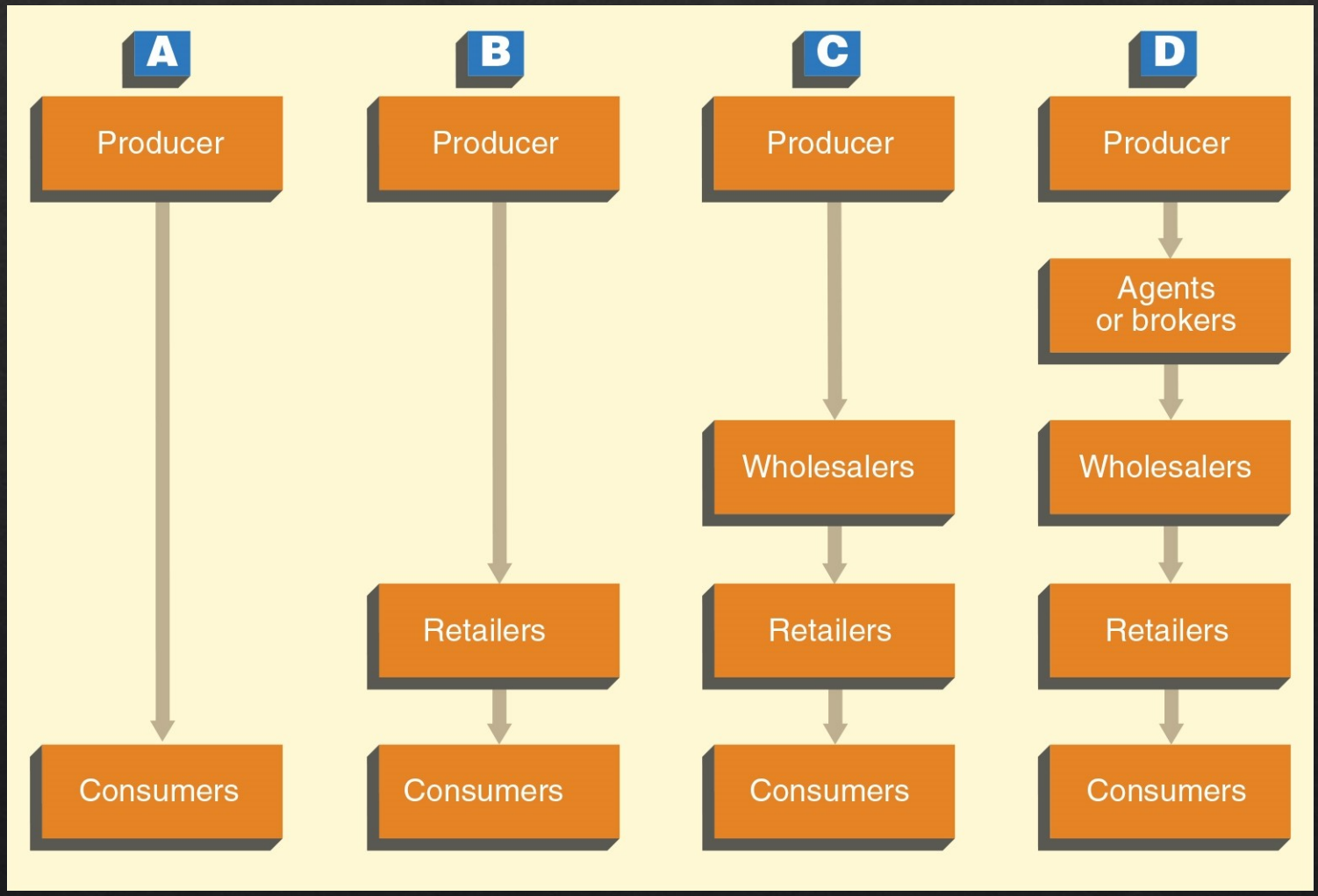

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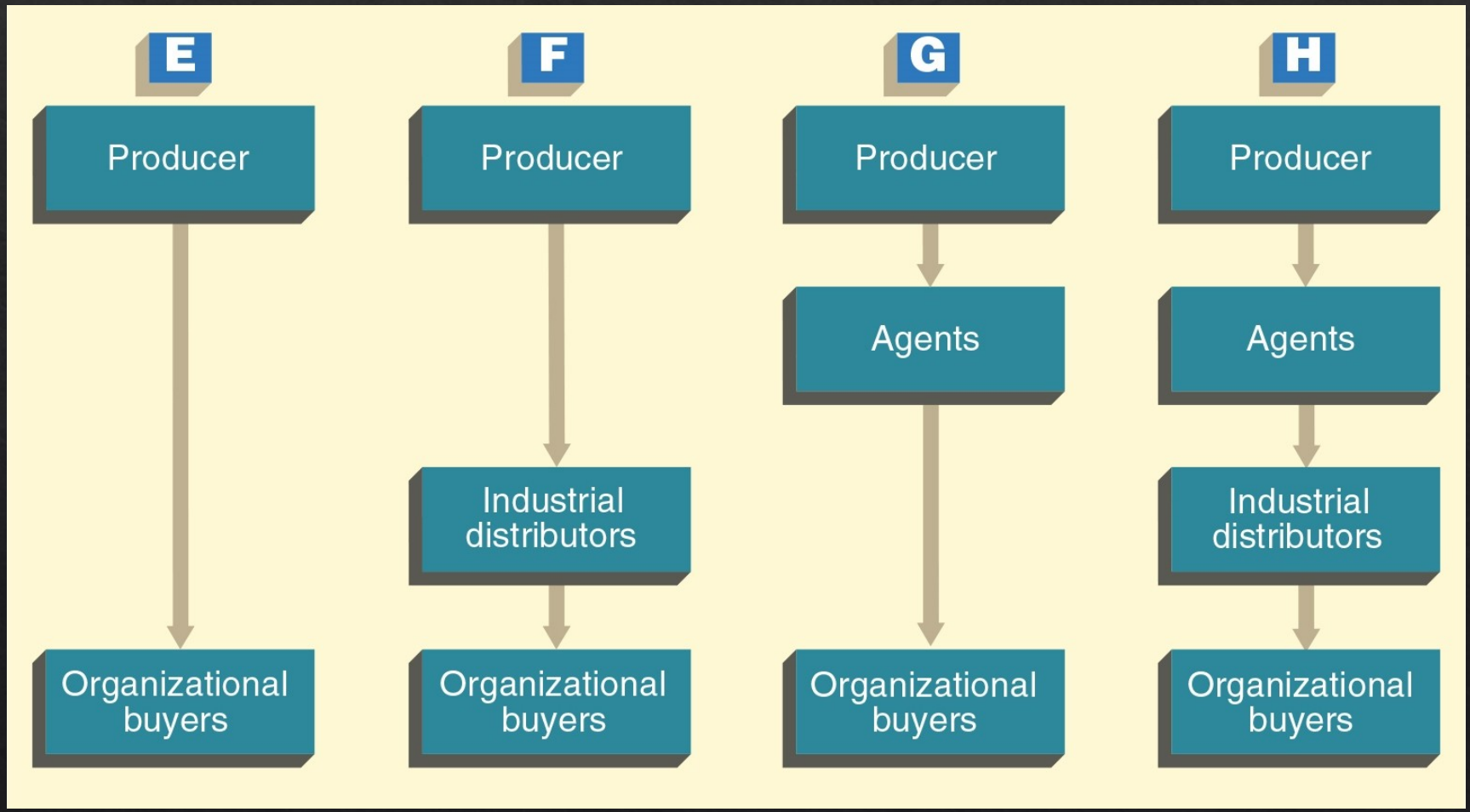
Figure 13.3 - Typical Marketing Channels for Business Products



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Channels for Business Products

- Industrial distributor - independent business organization that takes title to industrial products and carries inventories
- Manufacturers' agent - independent businessperson who sells complementary products from several producers in assigned territories and is compensated through commissions

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Advantages and Disadvantages of Industrial Distributor

Advantages of industrial distributor

- Perform required selling activities in local markets at a lower cost to a manufacturer
- Provide customers with credit services
- Pass on market information to producers
- Reduce producers' capital requirements

Disadvantages of industrial distributor

- Difficult to control
- Not dependable to promote brand
- Less likely to handle items that need specialized facilities or extra selling efforts
- Lack specialized knowledge necessary to sell and service technical products

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Multiple Marketing Channels and Channel Alliances

- **Dual distribution** – use of two or more marketing channels to distribute the same products to the same target market
- **Strategic channel alliance** – products of one organization are distributed through the marketing channels of another

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Discussion Point – Using Multiple Marketing Channels

Source: Ralph Lauren Corporation

Ralph Lauren uses dual distribution by selling its clothes in stores and online at its company website.

When buying clothes, do you prefer shopping in stores or shopping online? Why?

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Figure 13.4 - Selecting Marketing Channels

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Intensity of Market Coverage

- **Intensive distribution** – uses all available outlets for distributing a product
  - Appropriate for shopping products
  - Desirable when a special effort is important to customers
- **Selective distribution** – uses only some available outlets to distribute a product
  - Appropriate for shopping products
  - Desirable when a special effort is important to customers
- **Exclusive distribution** – uses a single outlet in a fairly large geographic area to distribute products suitable for
  - Infrequently consumed over a long period of time
  - Requiring a service and information

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Discussion Point – Intensive and Selective Distribution

Source: LunaseeStudios/ Shutterstock.com

Source: Stephen Coburn/Shutterstock.com

Grocery products, like Yoplait yogurt, are usually sold through intensive distribution. Consumers can find such products in a variety of different outlets. Clothing, such as ties, is marketed through selective distribution, and is not available in as many retail stores.

What are some other examples of products that are sold through selective distribution?

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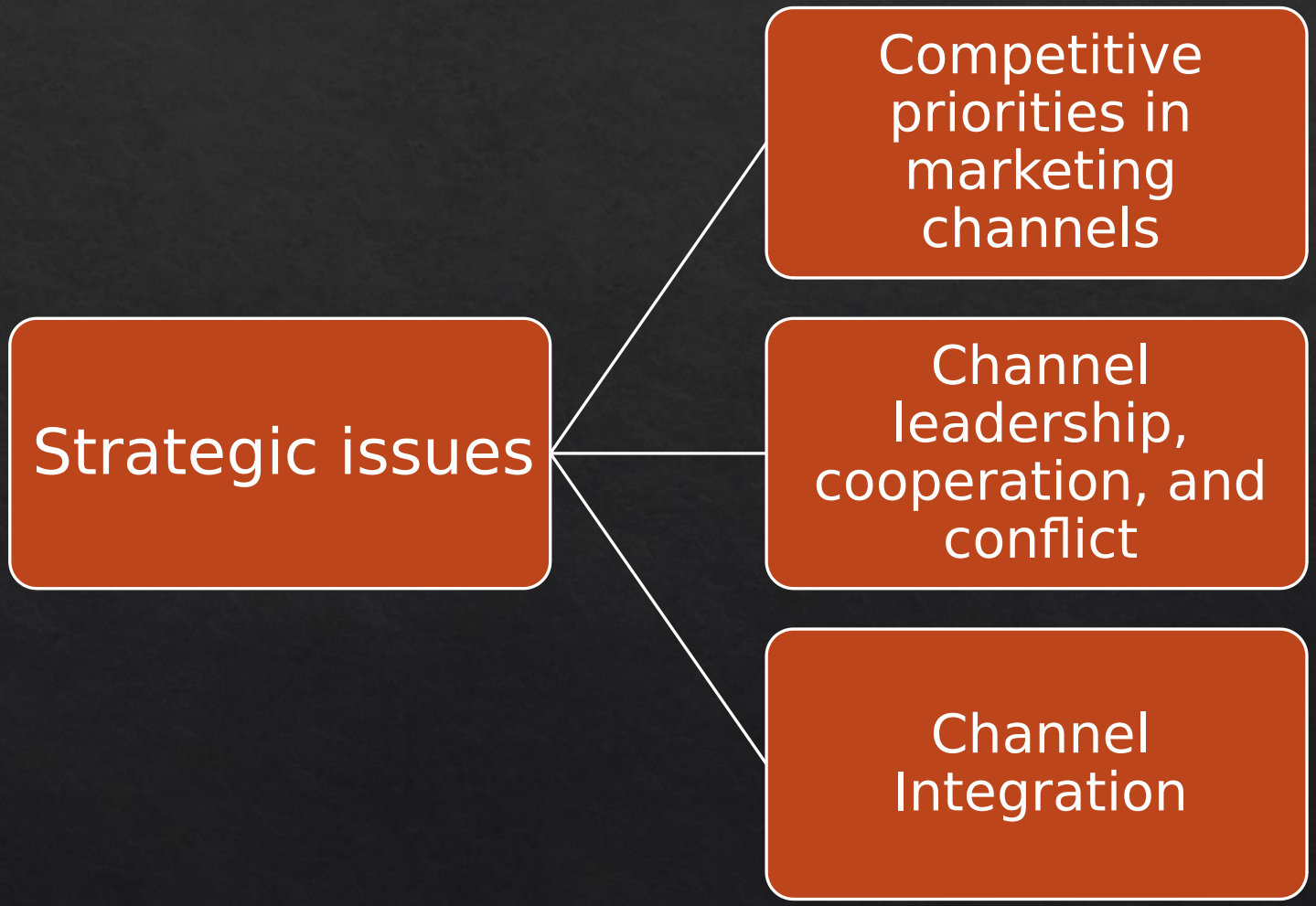
Strategic Issues in Marketing Channels



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Competitive Priorities in Marketing Channels

- Supply chains can provide a competitive advantage for many marketers.
- Effective and efficient supply chains can sustain a business in a variety of competitive environments.
  - Inefficient supply chains can lead to increased costs.
  - Integrated supply chains lead to a holistic view of the supply chain.

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Channel Leadership, Cooperation, and Conflict

- Each channel member performs a specific role in the distribution system and agrees to
  - Accept rights
  - Responsibilities
  - Rewards
  - Sanctions for nonconformity
- Channel partnerships can facilitate effective supply-chain management.
- Channel cooperation reduces wasted resources.

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Channel Leadership

- **Channel captain** – single leader who controls marketing channels; may be a
  - Producer
  - Wholesaler
  - Retailer
- **Channel power** – ability to influence another channel member's goal achievement

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Discussion Point – Channel Leadership

Source: Pio3/Shutterstock.com

Nike provides channel leadership in the distribution of its products.

Besides shoes, what other products make Nike a market leader?

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Channel Cooperation

- Enables retailers, wholesalers, suppliers and logistics providers to
  - Speed up inventory replenishment
  - Improve customer service
  - Cut the costs of bringing products to customers
- Ways to improve channel cooperation
  - Marketing channel should be viewed as a unified supply chain.
  - Members should work toward common objectives.
  - Channel member tasks must be clearly defined.

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Channel Conflict

Channel conflict occurs when

- Self-interest creates misunderstanding about role expectations of channel members
- Communication is poor between channel members
- Intermediaries overemphasize competing products or diversify into product lines traditionally handled by other intermediaries

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Discussion Point – Channel Conflict

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Textbook publishers, which traditionally have marketed college textbooks through campus bookstores and now sell textbooks through their own websites, may be experiencing channel conflict.

Do you think this has a big impact on campus bookstores?

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Channel Integration

- Channel members either
  - Combine and control activities
  - Pass them to another channel member
- Channel functions may be transferred between
  - Intermediaries
  - Producers
  - Customers

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Vertical Channel Integration

- **Vertical channel integration** - combines two or more stages of the channel under one management
- Vertical marketing system (VMS) - single channel member coordinates all activities to maximize efficiencies
  - Corporate VMS - combines all stages of the marketing channel under a single owner
  - Administered VMS - informal coordination achieves a high level of interorganizational management
  - Contractual VMS - members are linked by legal agreements

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Horizontal Channel Integration

- **Horizontal channel integration** - combining organizations at the same level of operation under one management
  - Creates economies of scale
  - Large size may
    - Decrease flexibility
    - Increase coordination problems
    - Require additional research and planning

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Physical Distribution in Supply-Chain Management

- Physical distribution – (also known as logistics) activities used to move products from producers to consumers and other end users
- Outsourcing - contracting of physical distribution tasks to third parties
- Technology - a large role in physical distribution considerations within marketing channels
- Cycle time – the time needed to complete a process
  - Important goal of physical distribution

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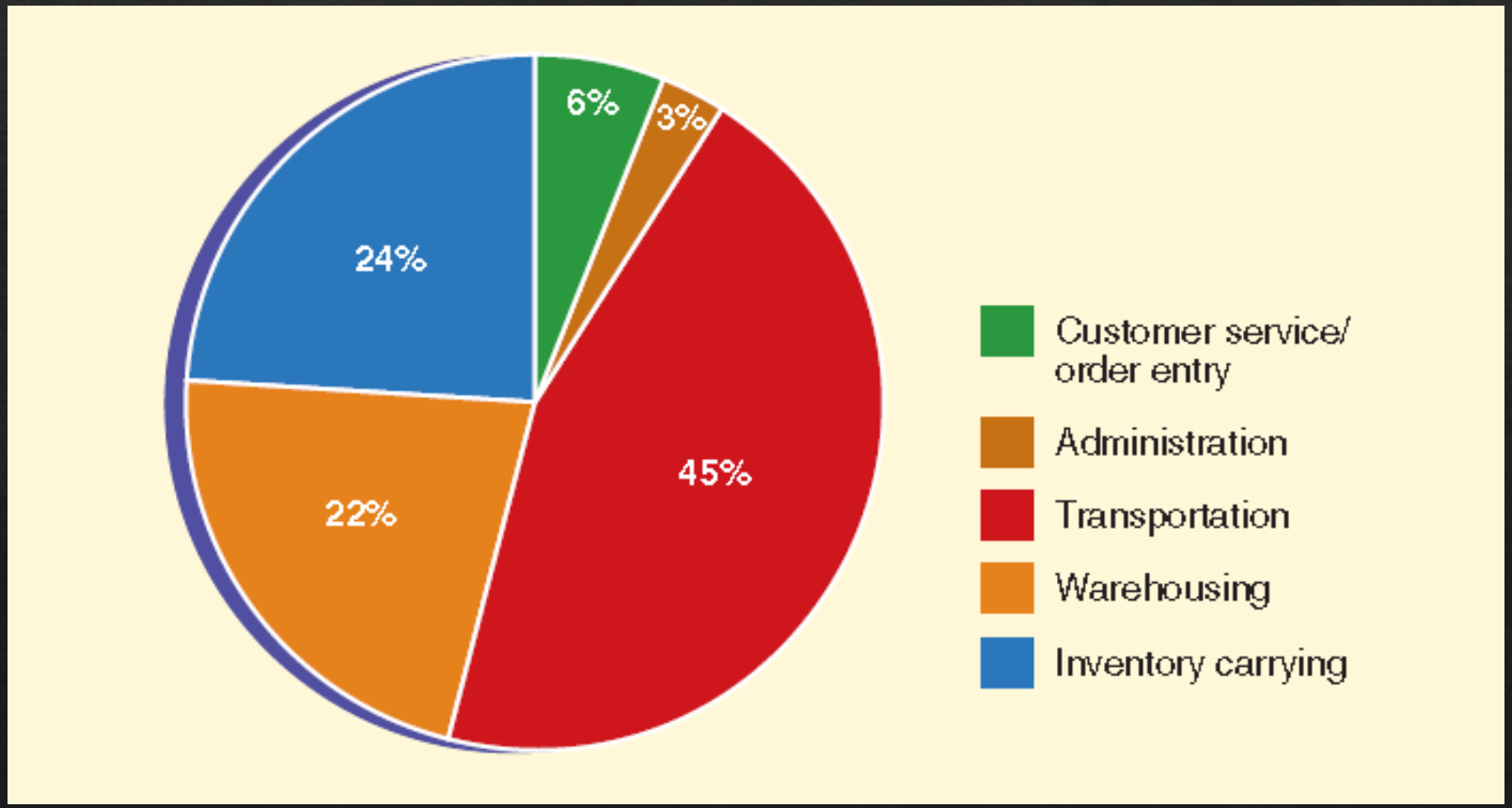
Figure 13.5 - Proportional Cost of Each Physical Distribution Function as a Percentage of Total Distribution Costs



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Order Processing

- **Order processing** – the receipt and transmission of sales order information
  - Order entry - begins when customers place orders
  - Order handling - product availability and customer credit-worthiness is verified; order assembly occurs
  - Order delivery - delivery is scheduled with carrier
- Electronic data interchange (EDI) - computer technology to integrate order processing with production, inventory, accounting, and transportation

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Inventory Management

Inventory management - developing and maintaining adequate assortments of products to meet customers' needs

- Stockouts - shortages of products
- Reorder point - inventory level that signals the need to place a new order

  Reorder point = (order lead time x usage rate) + safety stock
- Order lead time - average time lapse between placing the order and receiving it
- Usage rate - rate at which inventory is used/sold
- Safety stock - extra inventory a firm keeps
- Just-in-time (JIT) - supplies arrive just as they are needed for use in production or for resale

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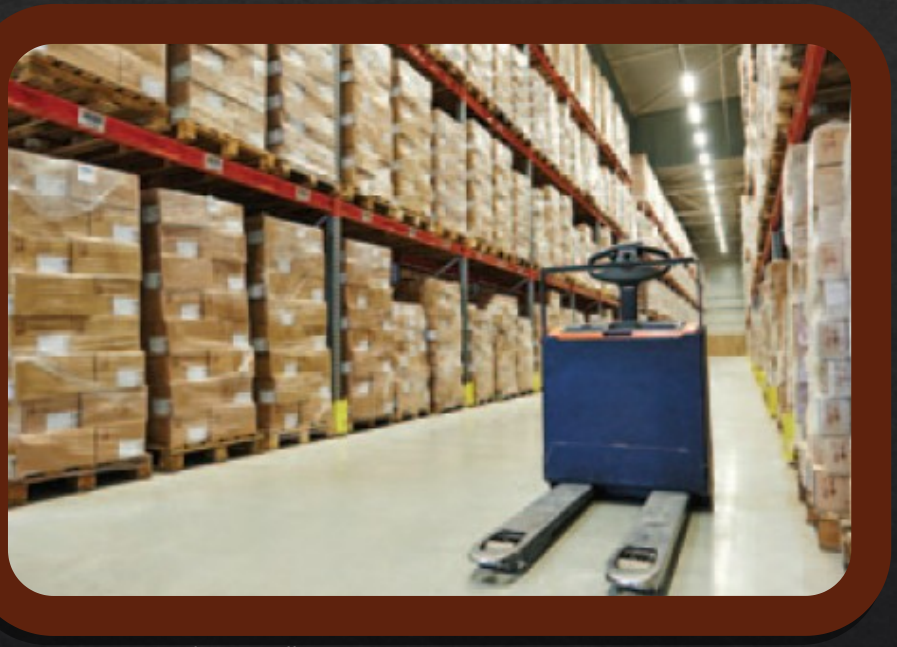
Discussion Point – Warehousing and Inventory Management



Source: Kadmy/Fotolia LLC

Warehousing and inventory management efforts are expensive but are important elements in providing customer satisfaction.

Why do inventory managers need organizational skills and critical thinking skills?

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Materials Handling

- **Materials handling** - physical handling of tangible goods, supplies, and resources
- Efficient materials handling can
  - Reduce costs
  - Decrease number of times a good is handled
  - Improve customer service, increasing satisfaction
- Radio frequency identification (RFID) - radio waves used to track materials using scanners

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Common Methods in Materials Handling

Common methods used in materials handling

- Unit loading - one or more boxes are placed on a pallet or skid
- Containerization - consolidating many items into a single, large container that is sealed at its point of origin and opened at its destination

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Warehousing

- **Warehousing** – the design and operation of facilities for storing and moving goods
  - Creates time utility
  - Helps stabilize prices and the availability of seasonal items
- Choice of appropriate warehouse facilities
  - Reduce transportation and inventory costs
  - Improve customer service

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Types of Warehouses

- **Private warehouses** – company-operated facilities for storing and shipping products
- **Public warehouses** – storage space and related physical distribution facilities that can be leased by companies
  - Field public warehouses – established by public warehouses at the owner's inventory location
  - Bonded storage – a warehousing arrangement in which imported or taxable products are not released until owner pays custom duties, taxes, or other fees
- **Distribution centers** – large, centralized warehouses that focus on moving rather than storing goods

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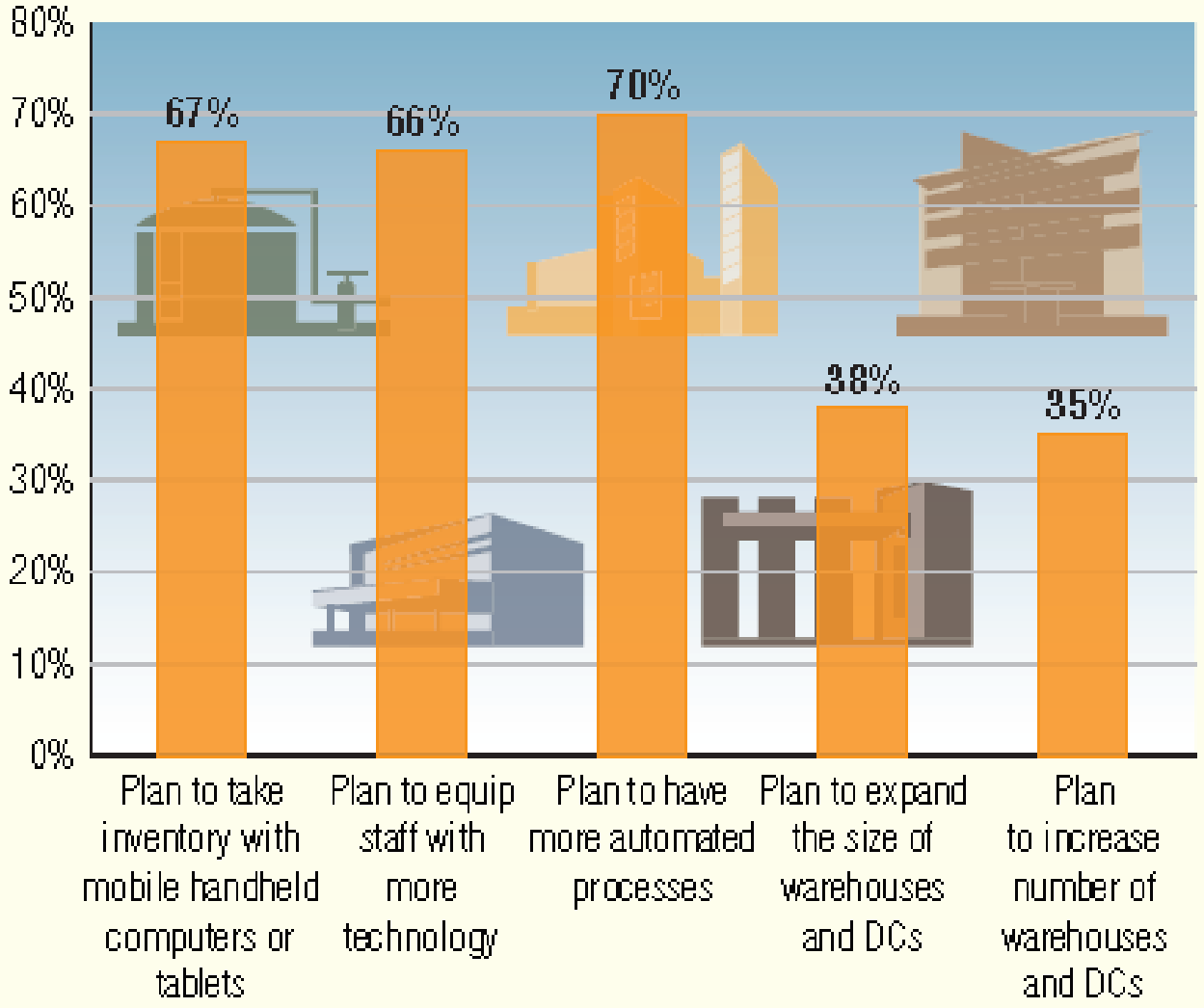
SNAPSHOT

How Will Warehousing Change in the Next Five Years?



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Transportation

- **Transportation** – the movement of products from where they are made to intermediaries and end users
- Transportation modes
  - Railroads
  - Trucks
  - Waterways
  - Airways
  - Pipelines

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Table 13.2 - Characteristics and Ratings of Transportation Modes by Selection Criteria

Selection Criteria	Railroads	Trucks	Pipelines	Waterways	Airplanes
Cost	Moderate	High	Low	Very low	Very high
Speed	Average	Fast	Slow	Very slow	Very fast
Dependability	Average	High	High	Average	High
Load flexibility	High	Average	Very low	Very high	Low
Accessibility	High	Very high	Very limited	Limited	Average
Frequency	Low	High	Very high	Very low	Average
Products carried	Coal, grain, lumber, paper and pulp products, chemicals	Clothing, computers, books, groceries and produce, livestock	Oil, processed coal, natural gas	Chemicals, bauxite, grain, motor vehicles, agricultural implements	Flowers, food (highly perishable), technical instruments, emergency parts and equipment, overnight mail

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Choosing Transportation Modes

- Based on combination of
  - Cost
  - Speed
  - Dependability
  - Load flexibility
  - Accessibility
  - Frequency
- Determine if more expensive mode is worth the higher cost

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Coordinating Transportation

- **Intermodal transportation** – two or more transportation modes used in combination
- Containeration can be
  - Piggyback (truck and rail)
  - Fishyback (track and water)
  - Birdyback (truck and air)
- **Freight forwarders** – combine shipments from several firms into efficient lot sizes
- **Megacarriers** – freight transportation firms that provide several modes of shipment

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Discussion Point – Intermodal Transportation

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Containers facilitate intermodal transportation because they can be transported by ships, trains, and trucks.

How does growing demand for intermodal transportation cause conflict between freight and passenger service?

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Legal Issues in Channel Management

- Dual distribution
  - Viewed as a threat to competition
  - Producers that have outlets should use prices that do not severely undercut independent retailers' prices
- Restricted sales territories
  - Courts have conflicting opinions on restricting intermediaries to certain sales territories
    - Exclusive territories can promote competition among dealers handling different brands

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Tying Agreement

- Tying agreement - supplier furnishes a product to a channel member with the stipulation that the channel member purchases other products
  - Full-line forcing - supplier requires that channel members purchase the supplier's entire line to obtain any of the supplier's products
    - Used to ensure intermediaries accept new products
    - A suitable range of products is available to customers
  - Legally acceptable when the supplier is the only one able to provide products of a certain quality

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Exclusive Dealing

- Exclusive dealing – an arrangement where a manufacturer forbids an intermediary to carry products of competing manufacturers
  - Considered illegal if
    - Deal blocks competitors from 15% or more of the market
    - Sales volume is large and the producer is larger than the retailer
  - Arrangement is allowed if
    - Dealers and customers in a given market have access to similar products
    - The exclusive-dealing contract strengthens an otherwise weak competitor

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Refusal to Deal

- Refusal to deal
  - Producers have the right to choose channel members
  - Suppliers cannot legally refuse to deal with wholesalers or dealers merely because they resist policies that are anticompetitive or in restraint of trade
  - Suppliers prohibited from organizing channel members in refusal-to-deal actions against other members

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